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El Salvador

Sugar

Annual

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Report Highlights:

Sugarcane planted area stagnated at approximately 66,000 hectares in 2003/04. Sugar recovery yields have increased in the 2003/04 harvest, mainly due to added investment, which has increased efficiency in the milling process. The Salvadoran Sugar Council (CONSAA) is in charge of regulating sugar trade. Most sugar exports are destined to Russia and to the re-export market. Canada is a new export destination. The sector continues to get tariff protection by the Government of El Salvador (GOES). The Salvadoran sugar industry is very optimistic due to Central America Free Trade Agreement (CAFTA), which includes additional access to the U.S. market of approximately 22,000 MT with a 2 percent annual growth. The Ministry of Agriculture (MAG) continues efforts to shift traditional agricultural production into more profitable non-traditional export crops.

Includes PSD Changes: Yes

Includes Trade Matrix: Yes

Annual Report

San Salvador [ES1]

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Executive Summary

Higher yielding sugarcane varieties, diversification of industry to produce energy and alcohol/ethanol, investment in milling equipment to improve sugar yields and additional access to the U.S. market due to CAFTA provide a positive outlook for El Salvador's sugar industry in the 3 to 5 year term. A National Sugar Law that regulates sugar production, distribution and marketing is an important component to the reengineering process that the industry is currently undergoing. In addition, the sector seems to be recovering financially after facing debt complications due to natural disasters and lack of government policies to assist sugar farmers. However, ultimately the success of the industry will rely on compliance with the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification either into additional energy co-generation projects or of excess production land into non-traditional crops that can provide higher incomes to sugar farmers.

Sugarcane production for the 2003/04 harvest is estimated at 4.54 million MT, 1.8 percent higher than the USDA database. The 2002/03 production number has been increased to 4.46 million MT mainly due to favorable weather during harvest.

Increased sugar production and lower ending stocks have increased sugar exports in 2003/04. New data provided by the Salvadoran Sugar Association shows exports increasing by 17,000 MT compared to the 2002/03 harvest. Sugar production is expected to reach 506,000 MT in 2003/04, up 26,000 MT from previous reports. Sugar production for 2004/05 is expected to be similar to 2003/04. However, weather conditions will play a major role in future production output. Droughts are becoming more frequent in El Salvador causing extensive damage throughout the agricultural sector. The Ministry of Agriculture (MAG) is working on programs to ease the impact of this type phenomenon.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is \$ 0.28 per pound plus a 13 percent value-added-tax.

The Salvadoran sugar industry seems to be reaching a stable production scenario, which provides similar sugarcane production numbers in 2003/04, as was the case in the 2002/03 harvest. Sugarcane production is only expected to be slightly lower in 2004/05 reaching approximately 505,000 MT. Area planted is expected to remain at approximately 66,000 Has.

USDA continues to work closely with MAG and non-government organizations to coordinate the development of value-added crops that bring back profitability to farmers that are used to plantation agriculture.

El Salvador Sugar Cane for Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2002		11/2003		11/2004	MM/YYYY
Area Planted	66	66	66	66	0	66	(1000 HA)
Area Harvested	64	64	64	64	0	64	(1000 HA)
Production	4457	4468	4460	4547	0	4550	(1000 MT)
TOTAL SUPPLY	4457	4468	4460	4547	0	4550	(1000 MT)
Utilization for Sugar	4457	4468	4460	4547	0	4550	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	4457	4468	4460	4547	0	4550	(1000 MT)

El Salvador Centrifugal Sugar							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2002		11/2003		11/2004	MM/YYYY
Beginning Stocks	37	37	28	28	27	27	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	479	480	480	506	0	505	(1000 MT)
TOTAL Sugar Production	479	480	480	506	0	505	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp. (Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	516	517	508	534	27	532	(1000 MT)
Raw Exports	263	264	256	281	0	280	(1000 MT)
Refined Exp. (Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL EXPORTS	263	264	256	281	0	280	(1000 MT)
Human Dom. Consumption	225	225	225	226	0	226	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	225	225	225	226	0	226	(1000 MT)
Ending Stocks	28	28	27	27	0	26	(1000 MT)
TOTAL DISTRIBUTION	516	517	508	534	0	532	(1000 MT)

Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2003/04 sugar cane harvest is expected to reach 4.54 million MT. Sugar production is estimated to reach 506,000 MT in 2003/04. According to the Salvadoran Sugar Association, sugar recovery yields continue to improve and are averaging 111.83 Kgs. per MT. This improvement of approximately 4 percent in recovery yields compared to 2002/03 is attributed to controlled sugar cane burning during harvest, new sugar cane varieties that are more resistant to pests and diseases and to efficiencies in the sugar milling process. Sugar production is expected to remain at similar levels in 2004/05 reaching 505,000 MT.

Area planted continues to remain unchanged and is expected to remain at 66,000 has. in 2004/05. The Sugar Association does not foresee growth in area planted in the near future. The GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops such as tropical fruits.

Grower prices continue to be set according to sugar content of the cane. With the new Sugar Law, producers are to receive 54.5 percent of total sugar sales and sugar mills 45.5 percent. Privatization of all mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills are facing financial restructuring and in some cases are being monitored by financial institutions that want their loans to be honored.

Consumption

Consumption remains relatively stagnant and is expected to reach approximately 226,000 MT in 2003/04. The continued effect of a worldwide recession on the Salvadoran economy has deeply contributed to the decline in consumer purchasing power. In 2004/05, consumption numbers are expected to remain at the same level as in 2003/04. The recently negotiated Central America Free Trade Agreement (CAFTA) might increase sugar consumption in El Salvador because sugar-containing products such as candy and juices will have immediate duty-free access to the U.S. market. The Sugar Association is also carrying out a national marketing campaign to bolster local sugar consumption.

Trade

Exports for 2003/04 are expected to reach 281,000 MT. A larger crop, and increased sugar yields are expected to push this increase. The Sugar Association expects no refined exports for the 2003/04 season. The export forecast for 2004/05 is 280,000 MT.

The GOES continues to impose a 40 percent import tariff on all sugar. The bound rate on sugar is 70 percent ad valorem. The GOES considers sugar politically sensitive because it offers large rural employment and for this reason provides tariff protection. Recent CAFTA negotiations have spurred regional tariff harmonization to avoid triangulations and market disruptions.

Russia continues to be the major destination for Salvadoran sugar exports, taking almost three-quarters of exports. Out of the 182,943 MT that have been shipped to date in the 2003/04 season, 92,100 MT have been delivered to Russia. A new export destination is Canada with an estimated total of 30,000 MT in 2003/04.

Export Trade Matrix El Salvador Centrifugal Sugar			
Time Period	MY	Units:	MT
Exports for:	2003		2004
U.S.	26453	U.S.	26453
Others		Others	
Russia	194000	Russia	200000
Canada	18000	Canada	30000
Total for Others	212000		230000
Others not Listed	26000		24550
Grand Total	264453		281003

Stocks

Ending stock levels in 2003/04 decreased to 27,000 MT mainly due to increased exports. Contraband sugar coming from neighboring Guatemala is under control and no longer causes a disruption to the local market. The Salvadoran Sugar Law state that all sugar sold locally has to carry a safety seal provided by CONSAA. CONSAA has taken over all assignments previously handled by the Sugar Development Commission (CDA).

Production Policy

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A to reduce blindness in the local population. This added cost is shared by both producers and millers.

The GOES has not designed a specific production support or assistance program for the sugar sector, however it continues to provide tariff protection. Sugar farmers are benefiting from a program that the GOES has provided to the agricultural sector. This program is called FINSAGRO and offers loans at a 6 percent interest rate to assist farmers to payback arrears and have access to fresh working capital. Recent government assistance to the ailing coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs.

The Law for Commercialization, Production and Distribution of Sugar has been in effect since August 2001. Since then, CONSAA has been in charge of regulating the sector. CONSAA has a board of directors that will include members from the government, sugar producers and sugar mills.

Following are some of the areas where the sugar industry is working to improve sugar profitability:

- Produce only the amount of sugar that can be sold at profitable prices.
- Maintain or improve milling yields.
- Diversify mill incomes by focusing on alcohol production and energy generation.
- Continue to control the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality.
- Introduce new varieties that are pest and disease resistant.
- Lobby for CAFTA approval by the U.S. Congress and the Salvadoran National Assembly.

Price Policy

The wholesale price for white sugar is \$ 24.25 per cwt plus a 13 percent value-added-tax. Rising costs for raw materials, transportation and labor are the main reason for this price change.

The GOES controls sugar prices through the Ministry of Economy at the wholesale level. However, little effort is made to control price hikes at the retail level. The Sugar Association continues to publish monthly retail prices to counter indiscriminate hikes of retail prices that deeply affect the consumer.